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Fortieth session, second part
Geneva, 18 April 1994

DRAFT REPORT OF SESSIONAL COMMITTEE I OF THE THE TRADE AND DEVELOPMENT BOARD ON THE SECOND PART OF ITS FORTIETH SESSION

Rapporteur: Mr. E.M. Manakine (Russian Federation)

Agenda item 4: SUSTAINABLE DEVELOPMENT; THE EFFECT OF INTERNALIZATION OF EXTERNAL COSTS ON SUSTAINABLE DEVELOPMENT

Speakers:
Secretariat
United States of America
Japan
European Union (Greece)
Brazil
Ethiopia
Switzerland
Mexico
Asian Group (Indonesia)
China
Nordic Group (Norway)
Egypt
The former Yugoslav Republic of Macedonia
India
Canada
Algeria
Australia

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by Friday, 6 May 1994 at the latest to:

The UNCTAD Editorial Section
Room E.8106
Fax No. 907 0056
Tel. No. 907 5657 or 5655

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INTRODUCTION

(i) At its 833rd (opening) meeting, on 18 April 1994, the Trade and Development Board decided to establish a sessional committee of the whole (Sessional Committee I) to consider and report on the following agenda items:

> Trade policies, structural adjustment and economic reform: increased participation in international trade in goods and services by developing countries and economies in transition: some problems and opportunities (agenda item 2);
>
> Sustainable development: the effect of internalization of external costs on sustainable development (agenda item 4).

(ii) As indicated in the agenda (TD/B/40(2)/1/Add.2), it is understood that those officers elected to serve the sessional committees at the first part of the session may be retained to serve in the same capacities at the second part of the session. Thus the Chairman of Sessional Committee I was Mr. Antti HYNNINEN (Finland) and the Rapporteur was Mr. Evgueni MANAKINE (Russian Federation).

(iii) In the course of the second part of the fortieth session, Sessional Committee I held ..... formal meetings and ..... informal meetings.

Chapter I

SUSTAINABLE DEVELOPMENT: THE EFFECT OF INTERNALIZATION OF EXTERNAL COSTS ON SUSTAINABLE DEVELOPMENT

(Agenda item 4)

1. For its consideration of this item, the Board had before it the following documentation:

> "The effect of the internalization of external costs on sustainable development", report by the UNCTAD secretariat (TD/B/40(2)/6).

Consideration in Sessional Committee I

2. In introducing this item, the **Deputy Director of the Commodities Division and Coordinator for Sustainable Development** emphasized that sustainable development was a development concept which therefore required economic growth in places where essential needs were not being met. Thus sustainable development gave priority to the urgent present needs of the poor and the elimination of poverty and not just of pollution. Environmental problems arose when prices paid for goods and services did not reflect fully the cost to the environment of their provision, use and disposal. Sustainability of development required striking a balance between resource use and protection of the environment. The regulatory approach - whereby governments set regulations and environmental standards - was practised widely but there were other instruments for internalizing external environmental costs. The secretariat paper had assessed the nature of the various instruments available and their advantages and disadvantages. Full-cost resource pricing was one of the principles underlying internalization of environmental costs with which UNCTAD was particularly well-placed to deal. While it had been recognized that action was necessary at the national level, it was the international dimension of such action that could be valuably addressed in UNCTAD, in particular transborder and global external environment costs. Developing countries, especially, faced a policy conundrum: the imperatives of environmental protection and of development often pulled in opposite directions. Resolution of this conundrum required policies that would meet at least three criteria: (a) be capable of internalizing external costs; (b) allow continued economic development in all countries and enable the process of industrialization and modernization of commodity production to proceed in countries where the process was incomplete; and (c) provide appropriate incentives to assure development in developing countries and the renewal and

expansion of industrial facilities in both developed and developing countries, while embodying environmentally sound technologies and practices.

3. Although it was in the interest of all countries to cooperate on reducing the rate of use of environmental resources, the incentives facing individual countries often encouraged cost-cutting by "free-riding" on the virtuous behaviour of other countries. Hence the need for an efficient system of incentives at the international level was an imperative. In line with Principle 7 of the Rio Declaration, special attention had to be paid to finding positive incentives directed towards developing countries. Since production of commodities imposed costs that were seldom included in their market price, commodity exporters were, in essence, providing a subsidy to importers. For this reason, commodity pricing issues and the coordination of internalization in resource-based industries were central to achieving sustainable development through trade. Incentives for environmentally sound technology switching also had great potential. However, developing countries were faced with problems of environmental resource management superimposed on existing development problems. As the advances expected following Agenda 21 had not appeared, there was concern in some quarters that the environmental agenda of the industrialized countries might push development issues to a lower order of priority. It was therefore essential to start taking immediate steps towards sustainable development through the internalization of external environmental costs. The Board might wish to request that the Standing Committee on Commodities examine the issue of the principle of full cost resource pricing incorporating external environmental costs and its implementation, with particular emphasis on ways of ensuring global cooperation on instruments supportive of sustainable development, such as for example through international commodity-related environment agreements. At the second part of its forty-first session, the Board might wish to devote attention to the issue of environmental finance as this would be a natural evolution of work on development finance and could possibly respond in some measure to the failure of the "Earth Dividend" to materialize.

4. The representative of the **United States of America** said that she found the overall tone of secretariat's report to be positive, including its conclusions on the developmental benefits of environmental protection measures, particularly from the viewpoint of reducing or removing ill-conceived subsidies and other forms of free market interventions. The focus on the application of instruments for appropriate internalization of external environmental costs of economic activities held promise both for reducing the environmental damage they caused and for building the international basis for the effective integration of environmental

concerns into trade and development policies. She reminded the Board, however, that cost internalization alone could not create all the conditions necessary for sustainable development. Moreover, specific economic and environmental policies that might be appropriate for internalization of external costs, and their potential contribution towards sustainable development, also depended on the specific definition given to such concepts as internalization of external costs and sustainable development. The secretariat's report framed the principle of internalization of external costs in terms of the polluter pays principle and the resource pricing principle, but additional elements needed to be considered, including the notion of optimality and the possible alternatives for the use of available economic, social and environmental resources. In her view, the report overemphasised the equity dimension of cost internalization while understating the importance of the efficiency dimension, and had not adequately addressed such important questions as the formulation of appropriate commodity policies and the role of sound ecosystems management. Moreover, the critical importance of inter-generational equity, which was generally regarded as one of the key tenets of the sustainable development concept, had been neglected in favour of intra-generational equity. Future consideration by UNCTAD in this area should be more focused and move beyond the Brundtland Commission definition of sustainable development into a fuller common understanding of the environmental and developmental concepts. She commended the secretariat for its work in providing a solid and objective analytical foundation for discussion and indicated support for further work on commodity-related issues and national approaches to environmental financing.

5. The representative of **Japan** said that in his country regulatory approaches had achieved considerable success in controlling industrial pollution and, consequently, in safeguarding the environment. However, as a result of continuing economic growth and its accompanying pattern of mass-production, mass-consumption and mass-disposal, urban and household-generated pollution had emerged as a major problem. Since these new and complex problems arose from everyday activities, it could be said that people were both polluters and victims at the same time. He was of the opinion that, to be effective, regulatory approaches should be supplemented by a broad variety of policy instruments, including economic measures such as environmental taxes, surcharges and deposit-refund systems. He said that Japan's 1993 Basic Environment Law provided for the use of economic measures to reduce the environmental load; there was also government monitoring of the effectiveness of these measures and their impact on the economy and the promotion of public awareness and understanding on the rationale for such measures. He clarified the

use of the "Environmental Fund" component of the "Pollution Related Health Damage Compensation Law", mentioned in paragraph 50 of the secretariat's report. This law had been enacted in 1974 to exact compensation from polluting industries on behalf of pollution victims and, contrary to what was stated in the report, no loans had been granted to firms investing in pollution-control technology under this law. Since 1988, the "Fund" component of this law had been financed by voluntary contributions which were used to support pollution-related health care and welfare programmes. As to the future work of UNCTAD, he reminded the Board of the agreement at the most recent session of the Standing Committee on Commodities regarding the importance of an analysis of the economic implications of internalization. He expected the Committee to deliberate on this issue carefully, particularly the linkage between internalization and the issue of trade and environment and the varying economic and environmental circumstances affecting different commodities. He also said that he preferred to postpone a decision on the theme to be addressed at the second part of the Board's forty-first session. This decision could be taken during the first part of that session, by which time the mid-term review would have been completed.

6. On behalf of the **European Union**, the representative of Greece said that the document prepared by the secretariat was an excellent analysis of the concept of internalization of environmental costs, the degree of consensus on the principles involved and the instruments available. Internalization of external environmental costs had been proclaimed in principle 16 of the Rio Declaration and identified in paragraph 208 of the Cartagena Commitment which recognized that UNCTAD should pursue work on: "the manner in which prices of natural commodities and their synthetic competitors could reflect environmental costs and resource values". Externality entailed effects of one entity's action on others not party to that action. These effects could be negative or positive, resulting in either costs or benefits and their evaluation was exceedingly difficult. Agenda item 4 incidentially referred only to internalization of the costs but not the benefits. Identifying the instruments by which to carry out the task of internalization, the implications of their use at the international level and the necessity for concerted action were all part of a complex issue. Sustainable development relied on economic growth to meet basic needs and, as the secretariat report had stated, sustainable development should give "priority to the urgent needs of the poor, seeking to do away with poverty, not just pollution" (para. 8). While internalization of external environmental costs could contribute to the conservation and better management of the environment, it was nevertheless clear that some external environmental costs would not impinge greatly on sustainable

development. The process of internalizing environmental costs involved their identification, evaluation and redistribution. An evaluation had to be made of the extent to which external environmental costs would reduce the bases for future needs satisfaction; likewise the extent to which the financial costs of internalization impinged on other investment possibilities had to be assesssed. A focus on the purpose of internalizing external costs, namely to induce the agent responsible for causing the cost to reduce or eliminate it, should not obscure the fact that many external costs were unavoidable. For natural resources, avoiding all costs for future generations implied ceasing exploitation altogether, an unreasonable solution. However, external costs accruing to future generations could be reduced to a level compatible with sustainable development. Full-cost resource pricing was one way to achieve this and should be investigated. Establishment of the Global Environment Facility reflected a global agreement that actions of a single country could benefit others. Technical assistance to developing countries should help in spreading the skills needed to implement environmentally sound technologies. Experience with economic instruments was still needed along with complementary regulations. UNCTAD was well placed to explore the relationship between trade and environment and discussions on such issues should be pursued. The European Union supported the proposal (para. 77 of TD/B/40(2)/6) to request that the Standing Committee on Commodities examine in depth the internalization of external environmental costs in both commodity-producing and commodity-consuming countries. It was appropriate for UNCTAD to take up this subject from a market-based orientation in the context of trade and environment. In the light of the results of Marrakesh, the time was ripe to explore the establishment of an ad hoc working group on "trade and sustainable development". In line with the Cartagena Commitment, such an a group could, before UNCTAD IX, discuss concrete issues and proposals. While it might be premature to consider highly technical concepts such as an environmental value added tax and tradeable emission permits, UNCTAD was the appropriate forum to evaluate in due course the results of the work of the aforementioned ad hoc working group.

7. The representative of **Brazil** said that the concept of "internalization of external costs" had moved beyond the circles of economists into the public debate on sustainable development. The more popular slogan, "getting the prices right," masked the complexity of the problem. Environmental problems varied in terms of specific ecological circumstances, social and economic factors, the varying degree of priority given and the subsequent financial investment it required. Formulating the appropriate policy mix required consideration of a number of factors. Additional experience and analysis on the requirements and consequences of the use

of both regulatory and economic instruments were therefore needed. This was especially true in the case of developing countries, where institutional and administrative structures and resources were often not readily available. Regarding the option of correcting government policies having adverse environmental impacts, particularly the issue of subsidies, he said that little justification existed for subsidies which distorted international markets, depressed prices and caused countries in need of hard currency to over-exploit their natural resources. However, individual Governments could not do much with regard to international commodity prices which did not cover environmental conservation costs. He supported the idea of multilateral commodity-related environmental agreements, with the proviso that commodity producers adopting environmental action be protected from reduced remuneration arising from such action. He did not agree with the description of low commodity prices, in relation to environmental costs, as one which included subsidization either on the part of the foreign importer or the domestic producer, on the grounds that such a concept was based on imputed costs which in turn were determined by country-specific standards of environmental protection which could not be generalized. Furthermore, it was necessary to evaluate the consequences of the use of economic instruments, including their impact on international trade and on the sustainable development programmes of partner countries. While economic instruments were generally considered to be less intrusive than regulatory measures, the choice of product to be taxed, for instance, could cause distortions with ultimately negative effects on the environment. As an example, exemption of recycled paper from taxes on paper might discourage reforestation for pulp production. As regarded international cooperation, he remained to be convinced of the merits of international tradeable carbon emission entitlements, given that experience in this field had so far been less than encouraging. Conversely, international resource transfers could play an important role. The Board could, he believed, examine the issue of environmental financing with regard to internalization of external costs as well as the maintenance of external environmental benefits. He concluded by expressing support for the formation of a working group on trade and environment, provided that an agenda could be found which would emphasize developmental concerns and ensure complementarity with the working programme of the future World Trade Organization.

8. The representative of **Ethiopia** reported that the Transitional Government of Ethiopia had taken action to safeguard an environmentally sound development process. The Science and Technology Commission promoted the use of environmentally sound technology; structural adjustment programmes included subsidy reduction. Allocation of government expenditure had been shifted from the defense sectors to

economic infrastructure. She believed that for developing countries to undertake internalization of external costs effectively and successfully, the support of the UNCTAD secretariat and of the developed countries would be indispensable. Regarding the elimination of subsidies, she pointed out that farmers in developed and in developing countries did not have the same level of capacity to absorb the cost of necessary inputs. The agricultural sector of developing countries would not be able to meet export requirements unless assistance was forthcoming to cover the cost of fertilizers and pesticides. While the elimination of agricultural subsidies increased government revenues which could ultimately benefit the poor and thus contribute to the internalization of external costs, the cost of such a policy measure was unaffordable in the immediate term. Expressing regret that scant reference had been made as to how the least developed countries could meet the challenges of internalization of external costs, she affirmed her Government's commitment to the implementation of the Rio Declaration, and its view that differentiated responsibility, along with international cooperative and special assistance to countries in need were effective ways of achieving the desired goal.

9. The representative of **Switzerland** said that various economic market-based instruments designed to internalize external costs were in operation in his country and new policy proposals were under way. Regarding internalization policies, as discussed in the secretariat's report, he enumerated certain implementation obstacles. Foremost among these was that even if the principle of internalization of external costs was universally accepted, its application would inevitably meet with political resistance because of vested economic interests. The actual issue at stake was not environmental nor even economic as such, but rather political in dimension. Furthermore, most developing countries were currently undertaking structural adjustment programmes, which also aimed at correct pricing policies through the establishment of property rights and of free market fundamentals. He deduced that these countries would want to evaluate the results of these programmes first before embarking on internalization policies. He pointed out that the lack of administrative and fiscal resources of developing countries to redirect incentives and financial flows implied in internalization of external costs could be a hurdle. Experience with debt-conversion policy showed that debt-for-nature swaps created conflicting national policy priorities and had worsened inflationary pressures. The relationship between commodity exports and environmental degradation was not as linear as suggested in the paper: export products such as coffee and tea had much less environmental impact than products for domestic consumption like cassava and rice. He suggested that emphasis be placed on production activities rather than on the end-product itself. As far the proposed

international commodity-related environmental agreements, he noted that the lack of international coordination and implementation had limited the success of earlier agreements. He doubted that full cooperation could be achieved if the price premium were to be utilized for the purpose of sustainable development. Moreover, disbursing compensation to exporting countries was tantamount to providing incentives for a product or a production process which should be discouraged in the first place while neglecting diversification promotion. Resources should go to addressing the environmental issue with such options as diversification and transfer of technology. Switzerland would welcome the creation of an intergovernmental group of experts on diversification. UNCTAD's work in this area, both in terms of theory and practical experience, could be a valuable input into the work of the future World Trade Organization.

10. The representative of **Mexico** considered that it was essential to analyse the potential trade distortions and secondary effects arising from the use of proposed measures for internalizing external costs, particularly as these could result in higher prices of developing countries' export products which in turn could undermine their trade competitivity. Sustainable development could best be achieved in a climate of dynamic international economic growth based on a predictable, equitable and non-discriminatory multilateral trade system; environmental issues must not be used as an excuse for trade protectionism. Further work was needed on areas such as determining the optimum level of environmental protection and setting specific objectives in pollution reduction. The capacity of developing countries to internalize environmental costs depended on their general level of development and on the support offered through international organizations such as UNCTAD. If developing countries had to reconcile the need for rapid export-led growth with the need to conserve their natural resources, it was imperative that improved market access be allowed for their non-traditional exports. It was equally important that developing countries have access to adequate financial and technological assistance regarding environment conservation techniques and applications. The transfer of obsolete technology that was environmentally harmful must be avoided. Regarding economic measures, these were important for attaining environmental goals, in persuading other countries to follow a similar strategy, in protecting national industry and in fulfilling international commitments on the environment. Their implementation, however, must take into account the fact that the causes as well as the consequences of environmental problems differed between the developing and developed countries. Among the former, lack of resources was paramount, while among the latter the chief cause was consumerism. Integrating environmental

protection into a country's economy required a system-wide review of economic policies, natural resources management, technological innovation, participation of the public at large, research priorities and investment practices. Each individual country thus had to define modes of internalization of external costs according to their circumstances and priorities. Recent trade negotiations with the United States and Canada had enabled Mexico to finalize a plan of action for attaining sustainable development, including environmental costs absorption. The Board's decision to examine the trade and environment issue during the first part of each of its annual sessions had full support from Mexico and, in this connection, at the first part of the forty-first session, the Board could examine the effects of the proposed measures on market access and competitivity, particularly for developing countries' exports. His country likewise supported the suggestion that the Standing Committee on Commodities examine further the internalization of external environmental costs for commodities.

11. Speaking on behalf of the **Asian Group**, the representative of Indonesia stated that international cooperation was indispensable not only in terms of adopting a concerted global strategy on the environment, but also in terms of assisting developing countries in implementing programmes aimed at achieving sustainable development and alleviating poverty. For most developing countries, internalization was still a policy option and given the lack of financial and technological resources, many such countries might opt for policies on which the only consideration was that of trade and the economy. The capability of developing countries to internalize external environmental costs could only be realized with stable economic growth which allowed for the pursuit of sound environmental management. In this regard, international support was needed to ensure that environmental policies were coherent with national developmental goals and priorities. Assistance in terms of capital equipment and appropriate skills, for instance, could be provided. Further study was needed to analyse the impact of internalization on trade and on the competitiveness of internationally traded products, particularly those of environmentally friendly products. Additionally, efforts should be aimed at preventing conflicts arising from differences in environmental policies among countries, taking into consideration their specific needs and levels of socio-economic development. International commodity-related environmental agreements, like the Framework Convention on Climate Change and the Convention on Biological Diversity, should provide for the need of facilitating and financing the transfer of environmentally sound technologies on favourable terms. His Group supported the secretariat's work on the impact of internalization of external costs on trade and competitiveness.

12. Calling attention to the complexity of the issue, the representative of **China** stressed the need for international cooperation which would take into consideration the different economic development levels and needs of all countries. With many developing countries facing the arduous tasks of poverty elimination and economic development, they could not invest financial resources in new technology even when these were environmentally "friendlier". By the same token the use of the environmental issue as a pretext for setting up new types of trade barriers must be excluded. Assistance to developing countries in their economic development as well as in their environmental protection measures was the fundamental way of achieving sustainable development. The developed countries and the international organizations concerned should give full consideration to the interests of the developing countries and provide them with financial and technical assistance in their pursuit of economic development and environmental conservation.

13. On behalf of the **Nordic countries** (Denmark, Finland, Norway and Sweden), the representative of Norway emphasized the importance of global cooperation in this area, citing limitations on how much individual Governments could achieve by acting independently without risking market losses. The UNCTAD secretariat's suggestion to put in place "an efficient system of incentives at the international level to induce cooperative environmental protection" merited support although vigilance was needed to guard against any trade discrimination which might arise. International cooperation was also needed on dealing with transboundary external environmental costs, as the secretariat's report had noted. The Nordic countries being the end-recipients of acid rain caused by industrial emissions from other countries made this concern particularly acute for them. The correction of market failures was a question of utmost importance, as failure to allocate a price on pollution or environmental degradation led to welfare reduction and price distortion; likewise, policy failures distorted allocative efficiency. Correcting market and policy failures thus represented a "win-win" situation. He fully supported the secretariat report's conclusion that "open markets remain a key to the international transmission of internalization of external costs," adding that the private sector also played an extremely important role. In this context, he noted the efforts of the Business Council on Sustainable Development and its task force on internalising environmental costs. Notwithstanding the flexibility of the market-based approach, it needed to be complemented by regulatory measures. The premise that technological innovation was best achieved through the application of economic instruments for internalization of external costs was questionable, as

feasibility depended equally on the ways of implementing the regulatory measures or economic instruments, or combinations thereof. UNCTAD's initial work on guidelines for mutual recognition of national eco-labelling schemes had been very useful and the commodity sector was particularly relevant for UNCTAD's continued work on these questions. The Standing Committee on Commodities was already engaged in this work and further guidance from the Board might be useful. Attention should be focussed on production methods, including the choice of technology. In this regard, he alluded to the possibility of funding through the Common Fund for Commodities. The Nordic countries looked forward to the completion of the conceptual study on internalization of external costs in the commodity sector; preparation of a case study on policy/market failures and on a mix of policy measures for the internalization of external costs would be very useful. He then proposed that the secretariat investigate "cooperative approaches to providing incentives for switching to more environmental sound technologies," an area which also demanded practical testing of different measures. The Nordic countries agreed that: "global optimality demands global cooperation," especially in order to assist developing countries. UNCTAD had undertaken valuable analytical work on various types of market-based instruments that might facilitate a global approach to the internalization issue, and could therefore make an important contribution towards the trade and development debate.

14. The representative of **Egypt** said that discussion on internalization should be centred around three fundamentals: international cooperation, the intrinsic linkages between poverty and environmental problems in developing countries, and the balance of commitments between developed and developing countries. On the last point, she called the Board's attention to the essence and spirit of the Rio Declaration. Unilateral regulatory measures, as linked to trade, could lead to unpredictable, non-transparent and discriminatory trade practices. Noting that these measures were gaining ground in developed countries, she called for further work in this area to analyze the effects and consequences of such measures on sustainable development, particularly with respect to the developing countries. Economic instruments adopted on a unilateral basis could exacerbate the differentiation of treatment between imported and local products. Evoking the idea of an internationally agreed command and control approach, she believed that UNCTAD could explore multilaterally-based measures which would take into account the interrelationship between development, international trade and the environment. Another area of concern to developing countries was the relationship between demand elasticity and the polluter pays principle. If developing countries exports faced elastic demand while their demand for imports was inelastic, these countries would

bear the major costs of internalization. On the issue of valuation, damage had to be valued if it was to be paid for: the same degree of damage could legitimately have different costs depending on the country. The task was rendered more complicated by such factors as levels of production and output of pollutants, which might be a non-linear function or entail synergistic effects. The assessment of the impact of the internalization of external environmental costs on sustainable development would be complete only when trade effects had been included. There were also other factors which might be relevant, such as exporters' local environmental and socioeconomic conditions, development needs and priorities, and the possibility of compensatory schemes to alleviate the burden of meeting international trade restrictions and fulfilling environmental goals.

15. The representative of the **former Yugoslav Republic of Macedonia** said that the problem of internalization of external costs was particularly difficult for countries in transition and developing countries, where slow economic growth, high unemployment rates and declining standards of living dominated and where environmental concerns were consequently secondary issues. The application of economic and other instruments to environmental management in these countries, especially with regard to the internalization of external costs, was one more challenge. These countries had urgent developmental priorities which, in the absence of improvement in production technologies, would most likely exacerbate environmental degradation. The support of the international community to countries pursuing development policies designed to achieve acceptable growth rates through the promotion of efficient resource use would benefit both the environment and the economy. The difficult situation in countries in transition necessitated additional efforts in formulating international instruments for the internalization of external costs in world trade which would enhance the dissemination of sustainable development methods. This could include assistance in the transfer of improved technology, promotion of environmental awareness as well as enhanced market access. UNCTAD could lay the groundwork for such a programme.

16. Endorsing the statement of Indonesia on behalf of the Asian Group, the representative of **India** said that while it was important to keep in view the needs of future generations, account had to be taken of the basic requirements of the present generation. In this context, he fully agreed with the premise put forward in the secretariat's report which stipulated that sustainable development as a development concept sought "to do away with poverty, not just pollution." Regarding the relationship between demand elasticity and cost internalization, measures were needed to ensure that the export products of developing countries did not become

uncompetititve and that declines in demand did not ensue as a result. Internalization should not lead to price increases which rendered essential products unaffordable to the poor. If costs were minimized by shifting them to the poor, lower costs might correspond to an even greater loss of welfare. Factors such as increased flow of environmentally sound technologies to developing countries, improved market access, and general public awareness of environmental concerns contributed more to the achievement of sustainable development than economic instruments did. Agricultural protectionism in developed countries increased farming intensity to a level that was not environmentally and economically justifiable, and impeded market access of low-cost producers. Lowered income in developing countries could exacerbate environmental pressures, through worsening the levels of poverty and through compelling these countries to intensify agricultural practices. The issue of sustainable development should not be approached on a piecemeal basis, but had to be tackled as a major cooperative effort of the world community. UNCTAD should study the effect of internalization on selected key sectors important to developing countries, bearing in mind welfare and poverty-alleviation components. UNCTAD could also develop a technical cooperation programme in this area, jointly with donor and aid agencies along with collaboration from policy sciences' research and policy analysis agencies, universities and nongovernmental organizations involved in resource management.

17. The representative of **Canada** noted that the Board's continuing consideration of this subject meant that a great deal of attention was being focused on achieving sustainable development. This attention in itself was useful, he believed. He then turned to the paper prepared by the secretariat, commending the way in which it had explored the idea of getting the right mix of policy tools and had stressed the need to understand the policy context. It had also made the important point that narrowly focused action could result in simply shifting external environmental costs rather than internalizing them. While it had paid attention to the role of present market interventions such as subsidies, and had addressed the question of full cost pricing and international implementation of environmental policy, the role of regulation had possibly been dismissed too hastily. Environmental assessment of policies as an instrument of internalization could have been given more attention and a discussion of the practicality and/or feasibility of different instruments would have been a welcome addition. However, the text in Box 3 of the document, relating to the Canadian cod fisheries, gave a misleading picture of the serious situation affecting the cod fishery. First, there had been insufficient attention paid to the role of foreign fishing fleets, including vessels flying flags of convenience or without nationality, in the destruction of the valuable cod

fisheries on the Grand Banks of Newfoundland. This particular cause of the decline of the cod stock was a policy failure on the part of distant-water fishing nations, not on the part of Canada. The United Nations had convened, as part of the follow-up to UNCED, the Conference on High Seas Fisheries to address the issues of effective conservation and management régimes for straddling stocks and highly migratory species on the high seas, with a view to preventing over-fishing and to allow for sustainable development of fisheries. Needless to say, Canada was participating actively in this Conference. Furthermore, the text failed to acknowledge that the decline of the cod fisheries was caused by a complex mix of factors including environmental factors. Despite the fishing moratorium imposed by the Canadian Government, the stock was continuing to fall at an alarming rate. Practices such as discarding of small fish had more to do with market pressures as reflected in price differentials than any "inadvertent" policy but the Canadian Government had adopted strict regulations to minimize discarding. While commercial catches had nearly doubled in the decade between 1978 and 1988, the levels were far below those of the 1960s and early 1970s. Stocks had increased rapidly following the extension of fisheries jurisdiction. The reference to the 1992 allowable catch as having been set at an excessively high figure of 185,000 tons did not take into account the revision downwards to 120,000 tons early in that year or the two-year moratorium imposed on 2 July 1992 as soon as the results of the new scientific studies had confirmed the rapid decline of the stock. With regard to future work in UNCTAD, the proposal to examine cost internalization in commodity markets was a good one but the approach taken to the issue should be broadened to include how to ensure that resource prices reflected full costs and the role of internationally traded emission permits. Attention might also be given to examining ways of financing environmental action. In addition, information issues such as those presented in paragraphs 43 and 44 of the document might be explored, including a discussion of full-cost accounting and case studies of successes in resource pricing and their effects on sustainable development.

18. The representative of **Algeria** said that in view of the absence of experience on the use of internalization instruments among developing countries, UNCTAD should undertake further analysis, particularly on the impact of such economic instruments on developing countries and their principal exports. Existing and potential regulations as well as financial and administrative constraints should likewise be further investigated, especially from the point of view of developing countries. For instance, the polluters pay principle as currently applied in certain developed countries could be adapted for use in developing countries. Noting that the concept of internalization of environmental costs was relatively new and its

definition still evolving, she said that its further elaboration should be centred on the principle of common but differentiated responsibility. The issue of correct pricing of commodities, both renewable and non-renewable, was of critical importance. The creation of a special working group on trade and environment, with a work programme aimed at, inter alia, assisting developing countries attain sustainable development, would have her country's full support. Such work could also enrich, if not complement, that of the Standing Committee on Commodities and of the World Trade Organization.

19. The representative of **Australia** said that the secretariat's report had provided an excellent basis for the discussion of the internalization of external costs and that it formed a welcome contribution to the study of economic instruments. Her delegation had found the report's discussion of the international dimension of cost internalization particularly useful, especially since this was a new area on which data were still scarce. Two areas where work could be undertaken were: the potential shortcomings and side-effects of various instruments and the importance of educational extension services and greater community involvement. UNCTAD could usefully explore further the international dimension of cost internalization, including the detailed implications and practical application of international commodity-related environmental agreements.

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DRAFT REPORT OF SESSIONAL COMMITTEE I OF THE TRADE AND DEVELOPMENT BOARD ON THE SECOND PART OF ITS FORTIETH SESSION

Rapporteur: Mr. E.M. Manakine (Russian Federation)

Agenda item 2: **TRADE POLICIES, STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM: INCREASED PARTICIPATION IN INTERNATIONAL TRADE IN GOODS AND SERVICES BY DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION: SOME PROBLEMS AND OPPORTUNITIES**

Speakers:

Secretariat
European Union
Nordic Group (Finland)
India
Chile
Former Yugoslav Republic of Macedonia (paras. 13, 42)
Bulgaria
Russian Federation
Ethiopia
Hungary
Czech Republic
Australia
Egypt
Japan
Belarus
Slovakia
Poland
Austria
China
Viet Nam
Romania
Mexico
United States of America
Commonwealth of Independent States
Greece (paras. 41, 43)

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by Friday, 6 May 1994 at the latest to:

The UNCTAD Editorial Section
Room E.8106
Fax No. 907 0056
Tel. No. 907 5657 or 5655

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Chapter ..

TRADE POLICIES, STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM: INCREASED PARTICIPATION IN INTERNATIONAL TRADE IN GOODS AND SERVICES BY DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION: SOME PROBLEMS AND OPPORTUNITIES

(Agenda item 2)

1. For its consideration of this item, the Board had before it the following documentation:

> "Trade policies, structural adjustment and economic reform: increased participation in international trade in goods and services by developing countries and economies in transition: some problems and opportunities", report by the secretariat (TD/B/40(2)/7); and
>
> "Statistical Annex" (TD/B/40(2)/7/Add.1).

2. The **Director of the International Trade Division** introduced the report prepared by the secretariat and also drew attention to the statistical annex contained in addendum 1 to the document. The main report sets out the issues and problems faced by developing countries in their efforts to participate in international trade. It likewise deals with the difficulties encountered by economies in transition in attaining full participation in international trade. The main themes addressed included: the process of integration into the international trading system and the international support required; trade among economies in transition; and, trade and investment cooperation between developing countries and economies in transition. In its analysis, the secretariat had also sought to take account of the diversity of situations in the various countries involved.

3. As regards enhancing the participation of developing countries in the international trading system, the report had attempted to place this discussion within the continuity of earlier discussions of the Board on this agenda item. The Board had also made important recommendations regarding the behaviour of large economic groupings with a view to enhancing their positive effects and averting any diversion of trade of developing countries. The Uruguay Round had brought about a substantial extension of the multilateral trading system, moving from concern for trade in goods to embrace a much wider perspective, extending beyond market access to trade in services, intellectual property rights and internal policy discipline. The Uruguay Round results, once implemented, would substantially strengthen multilateralism, international discipline, predictability and security and all countries would benefit, in particular the smaller and weaker countries participating

in international trading relations. Further improvement of market access for developing countries within the GSP was be important.

4. On the subject of the participation of economies in transition in the international trading system, it should be noted that the economic reform process in Eastern and Central Europe had taken various routes, advancing at different speeds in the individual countries. By focusing attention on trade and investment issues of major relevance for the transformation process, as well as for the foreign partners, account could also be taken of the new way of treating by substantive area the subjects related to economies in transition within UNCTAD (e.g. macroeconomic policies, privatization and technology). This session constituted the first time that trade issues involving economies in transition were being treated by the Trade and Development Board since the Conference at Cartagena, although the subject was not altogether new to UNCTAD. It therefore appeared consequent to discuss and assess the changes in trade and trade policies of economies in transition and the policy responses to these changes from major neighbouring and other developed partner countries. Several countries in this group had made substantial progress in their trade and investment policies. However, achievements in terms of effective trade expansion remained mixed, as had overall performance. While open and favourable trading conditions on major markets would be the best form of international support to underpin successful reforms, important limitations existed regarding the response from the international trading community, as well as regarding market access to major export products of these countries at bilateral, regional or multilateral levels. Hence normalizing the treatment of these countries in the multilateral trading system was an urgent task; this included addressing questions of anti-dumping, safeguards and access conditions. Investment in the productive sector needed to be intensified. Foreign direct investment was looked to as a major vehicle for spurring information transfer. This would occur through its potential to propel technological change, new management and organization principles, and the opening of new export markets and distribution channels. UNCTAD could assist economies in transition in all these areas. The combined effects of economic reforms and the collapse of old state structures were largely responsible for the drastic weakening of production and gross national product in several economies in transition, affecting especially intratrade. Meanwhile, only foreign trade and economic relations with Western European and other developed countries had been progressing rapidly, despite the importance of the other transition markets. There was an urgent need to assist the economies in transition in strengthening their policy instruments and the design and implementation of their mutual cooperation and integration arrangements.

5. In only a few instances had the developing countries been able to initiate new and dynamic exports to the countries in transition, notwithstanding the potential for substantial trade between these two groups of countries in the medium term. A revival of mutual trade and economic cooperation required progressive improvement of conditions for such cooperation. Relevant measures included, among others, application of liberal policies to mutual trade and investment; improvements of national policy instruments to facilitate payments, financing and risk guarantees; promotion of joint ventures and technological cooperation; agreements for investment cooperation and avoidance of double taxation; and the strengthening of cooperation between business organizations including emerging small enterprises. Economies in transition should aim at further improving their GSP schemes and liberalizing their foreign trade for exports from developing countries. International support and technical cooperation could help inspire new dynamism in trade and economic cooperation between economies in transition and developing countries. UNCTAD could play an active role in these endeavours through, inter alia, organizing governmental consultations on relevant issues of trade, investment and finance, mobilizing international support and providing technical cooperation in its areas of specialization. UNCTAD was ready to intensify its support of trade and economic cooperation between economies in transition and developing countries, particularly in view of the very important role assigned to UNCTAD by the Cartagena Commitment.

6. The representative of the **Commission of the European Community**, speaking on behalf of the **European Union**, noted that the UNCTAD secretariat's report had aimed at giving very comprehensive coverage to the existing problems, with the result that the depth of the analysis had suffered. The remedies proposed had not been clearly linked to the problems raised. This reflected a certain élan on the part of the UNCTAD secretariat with regard to the progress of the developing countries and the countries in transition in terms of their participation in international trade. While sharing the same concerns, the European Union nevertheless believed that patience was necessary. The concept of transition implied an evolutionary process, to be implemented step by step, so as to mitigate the risks of counter-shocks. The parts of the report dealing with the conclusion of the Uruguay Round and describing conditions of market access to the European Union had presented too gloomy a picture. In the framework of the European Union's import regime reform, most of the residual national quantitative restrictions predating the accession by certain countries to the Community had been abolished. The remaining restrictions applied only to textile products and to a very limited number of products originating from China. Moreover, new rules had simplified import procedures; this would benefit both the developing countries and the countries in transition. The need for

external support, including financial assistance, was undeniable. However, considerable resources had already been allocated. Referring to the recent export and import performance of some Central and Eastern European countries and Russia vis-à-vis the European Union, these results were all the more impressive as they had been achieved during a time of profound change in the structure of trade. While, as the report had emphasized, these traders would probably not find ready outlets in other regions, their exports to the European Union were certainly an exception to this rule. Indeed, their exports were going mainly to the developed countries. The European Union was currently absorbing half of the exports of Hungary, Poland, the Czech Republic and Slovakia. Moreover, the exports of these countries grew in 1993 in spite of the overall decrease in European Union imports. Quite understandably, this evolution had raised tensions in certain markets which also had to be addressed.

7. With regard to the renegotiation by certain countries in transition of their protocols of accession to the GATT, if the international trading system continued to allow within the Uruguay Round negotiations special conditions to apply to the state trading countries, this should not be a cause for concern in the countries in transition. To the extent that they were engaged in eliminating the planned economy system, the provisions concerning state trading countries did not apply to them. However, pending completion of this process, they should not yet be considered as normal trading partners with which to conduct trade relations on the basis of unconditional MFN treatment. Moreover, since the agreements on trade relations between the European Union and the Eastern and Central European countries in transition had been concluded only recently, immediate reopening of negotiations was excluded. The secretariat report had not put sufficient emphasis on the support given by the European Union to promote the development of the Central European Free Trade Arrangement. Referring to the secretariat's suggestion to expand the PHARE and TACIS programmes to cover the expansion of trade and investments between countries in transition and developing countries, it would be advisable to focus instead on how to maintain these programmes, as both groups of countries were already beneficiaries.

8. Speaking on behalf of the **Nordic countries** (Denmark, Finland, Norway, Sweden) the representative of **Finland** said that these countries had been encouraging increased participation in international trade by developing countries and economies in transition. It was important also to promote direct commercial links between the developing countries and the economies in transition. Through UNCTAD's Trade Point programme on procedures and trade efficiency and the International Trade Centre's assistance in finding potential markets, useful work had been done. It was

satisfying to see that a number of countries in transition had adopted or confirmed their GSP-schemes in favour of
developing countries. Likewise, the positive efforts to revitalize on the basis of market criteria some of the previous trade flows between the economies in transition were most welcome. Nevertheless, increased participation in international trade of these countries could hardly solve the special problems of the low income countries. The question of how to reverse the marginalization of the low income countries in international trade deserved priority attention. As for the Uruguay Round, the results would prove to hold value for the economies of the developing countries and lead to stability and predictability. The view expressed in the secretariat's paper, that the conclusion of the Round needed to be complemented by substantial improvements in generalized system of preference-schemes, had been, he felt, slightly overstated. Conversely, in the conclusions, less attention had been devoted to internal factors that influence economic reforms and structural adjustments both in the economies in transition and in developing countries although useful reference to the success stories of the East Asian countries had been made as well as to the reform process and successful reorientation in foreign trade of some of the economies in transition. In the formulation of policies in the low income countries, these factors could prove highly relevant if taken into account. As the reform process in the economies in transition was far from complete, the need for meaningful coordination and division of labour among the multilateral organizations and bilateral partners ought to be stressed.

9. Speaking on behalf of the **Asian Group**, the representative of **India** observed that the subject under discussion was highly topical as it was being raised on the heels of the conclusion of the Uruguay Round. The challenge before the international community was how the expected expansion of world trade could be equitably shared as this alone would lead to sustainable growth. A large number of developing countries were undergoing a process of wide-ranging economic reforms at tremendous cost, and it was hoped that these reforms would result in increased efficiency in the allocation of resources. Similar far-reaching structural changes were taking place in the countries in transition, as they moved towards greater economic integration into the world economy. Trade policy reforms in developing countries would require complementary international support, in the form of improved market access and increased flows of investment, technology and financing. While conclusion of the Uruguay Round negotiations would provide a more stable multilateral trading framework, trade barriers in items of interest to developing countries would remain high. The Uruguay Round therefore needed to be complemented by a substantial improvement in the Generalized System of Preferences. The process of economic

reforms and liberalization in the developing countries and the countries in transition had provided increased opportunities for all through expansion in world trade. It was in the common interest this process advance and be given the necessary support to ensure its success. Developing countries suffered from serious supply-side constraints as the result of inadequate investment funds, insufficient development of human resources and lack of technological capacity. International support to overcome these impediments would also be useful in mitigating (through safety nets) the adverse effects of trade policy reforms on labour. The restructuring and liberalization process hinged on the developing countries being able to earn sufficient foreign exchange to finance vital imports as well as to return borrowed funds. Market access for their exports was essential.

10. Developing countries counted on the conclusion of the Uruguay Round as leading to a rule-based, predictable, non-discriminatory multilateral trading system. Developed countries could further help by seeing how the benefits to developing countries could be complemented and enhanced by widening the product range and simplifying the GSP schemes. The tarification of agriculture and the integration of the multifibre arrangements within GATT had provided an opportunity for new products to be considered under the GSP schemes. Recent advances in the schemes for regional integration would provide further opportunities. However, care must be taken that integration did not divert either trade or investment. In this context, the conclusions put forward by Committee I at the first part of the fortieth session of the Trade and Development Board were relevant. In order to encourage participation of developing countries in international trade, it was important to make every effort to discourage the use of non-tariff measures and the use of anti-dumping and countervailing duties. It was noteworthy that the economies in transition had made tremendous efforts towards economic reform and liberalization at great social and economic cost. The disruption of their traditional trade linkages had adversely affected the exports of some developing countries which had earlier enjoyed close trade links with them. Additional resources provided to the countries in transition would enable them to complete their process of transition. UNCTAD's advisory role and technical services could benefit the developing countries and countries in transition through the identification of trade and investment opportunities including joint ventures. The help of the developed countries was sought in overcoming the problem of trade financing which at present was hampering the growth of trade between developed and developing countries. Additionally, untying of bilateral and regional credits in favour of procurement from developing countries could advance the integration of both into international trade.

11. The representative of **Chile** referred to the conclusions reached at the thirty-ninth session of the Trade and Development Board, whereby reforms in developing countries, building export-capabilities and strengthening international competitiveness had been set as long-term objectives. The same approach was valid for the economies in transition. The success of reforms depended on adequate international support, including cooperation in promoting foreign direct investment and technology transfer. Open markets were likewise indispensable for the success of reform measures; there was a need for commitment and concerted action by the international community to guard against protectionism. The use of anti-dumping and countervailing duty measures held inherent risks because even when no definitive duties were levied, the opening of enquiries and the imposition of provisional duties posed a serious hindrance to trade. This situation deserved special attention by the Board. Indeed, the issue merited treatment in a separate chapter in future reports by the secretariat.

12. Turning to the reforms in the economies in transition, he said that in spite of progress made by some of these countries, the observed reversal of the liberalization trend in the direction of tariff increases and application of non-tariff measures, as indicated in the secretariat's report, was a matter of concern. The economies in transition should be encouraged to persist in their efforts to make their products more internationally competitive. With regard to the prospects for increased trade with developing countries, maintaining a liberal and open system would lead to mutual benefits. In order to promote greater trade with developing countries, particularly the least developed, the economies in transition should improve or expand their GSP schemes and try to stabilize their preferential tariff regimes. The development finance resources flowing from industrial countries to the economies in transition should comprise additional flows and never detract from resources allocated to developing countries. In closing, he noted that the benefits of an open and transparent trade policy had been confirmed in his country: more liberal and non-discriminatory trade remained the best option and first priority.

13. The representative of **the Former Yugoslav Republic of Macedonia** praised the report on trade policies prepared by the UNCTAD secretariat for describing in an action-oriented manner the need for liberalization of trade, improved market access for all countries, liberalization of financial flows, increased foreign direct investment, membership of all States in the future World Trade Organization, strengthening of international cooperation, and sustained pursuit of the transition reforms. He said that there was no alternative to the process of economic transition which must continue until the countries of Eastern and Central Europe had been fully

integrated into the world economy. Speaking about the situation in his own country, which was both a European developing country in transition and a land-locked country, he expressed satisfaction with the peaceful way in which independence had been achieved. However, there had been two particularly negative external factors which had impacted on his country: the United Nations embargo against the Federal Republic of Yugoslavia and the embargo against his country imposed on 16 February 1994 by the Government of Greece. His country held that the latter had been imposed by the Greek Government with the aim of destabilization, thus threatening peace in the region. He thus appealed to the international community to intervene by calling for abolition of the Greek embargo. In this UNCTAD had a special role to play with regard to its efforts in favour of land-locked countries. On the subject of rights of access to the sea for land-locked countries, his delegation was considering to propose a draft decision by the Board. In closing, he underlined that his country would like to have with Greece the best possible relations, as good neighbours, based on mutual respect.

14. The representative of **Bulgaria** explained that the transition process in her country had encountered extreme difficulties. A dramatic fall in domestic industrial output had led to a drastic drop in living standards. Gross domestic product had fallen to around $US 750 to $US 950 during the last two years. This had coincided with an exceptionally unfortunate international environment. The Bulgarian economy had been severely damaged by international sanctions against Iraq, the Libyan Arab Jamahiriya and the former Yugoslavia. The war in the latter country had also created tremendous difficulties of access of Bulgarian goods to markets in Western and Central Europe. Foreign investments in Bulgaria were still insufficient. The debt problem remained a restrictive factor in financing restructuring and reforms. Integration of Bulgaria into international economic organizations had not yet yielded tangible results. Tariff and non-tariff barriers in some developed countries rendered access to new markets even more difficult than before.

15. Nevertheless, there had been important achievements. The establishment of a modern legislative framework for a market economy was the most important task for the Government and Parliament. A number of laws and regulations had been adopted. A comprehensive programme of economic reform had been launched in 1991, aimed at stabilization, liberalization of trade and gradual privatization of the economy. It was already having positive results. Inflation had declined and the private sector had begun to develop. In March 1994, Bulgaria for the first time since reforms began, had achieved an increase in industrial output. As a further way to mobilize the reform potential of the Bulgarian economy, the Government intended to continue active cooperation with international economic organizations of the United

Nations system, including UNCTAD. Bulgaria was widening its participation in international trade and financial institutions. It had become a member of the International Monetary Fund and the World Bank. It was a founding member of the European Bank for Reconstruction and Development (EBRD). Bulgaria was making substantial efforts to integrate itself into European and world economic structures by, inter alia, signing an agreement of association with the European Union and the Free Trade Agreement with EFTA States. In line with the necessity to comply with the GATT rules, Bulgaria had taken further steps towards unilaterally liberalizing its foreign trade regime. Although Bulgaria had not been a participant in the seven-year marathon negotiations of the Uruguay Round, it was carefully studying the outcome in the framework of the ongoing negotiations on accession to GATT-47 and to the future World Trade Organization. The documents prepared by the secretariat on the subject under discussion had proved very useful; further technical assistance from international sources, including from UNCTAD, would be highly welcomed.

16. The representative of the **Russian Federation** said that successful economic reform of his country would, to a large extent, depend on its integration into the world economy and the possibilities to expand participation in international trade. There were many hurdles. With regard to the current state of economic reform in Russia and its short-term prospects, in the period 1993-1994 the Government's efforts had been concentrated on the conduct of moderately stringent financial and monetary policies aimed at reducing inflation, stimulating investment, continuing privatization of state enterprises and further liberalization of external economic activities. These measures had led to sweeping economic changes, notably the expansion of the non-state sector. The inertia of the economic downturn had not yet been overcome. Gross domestic product and industrial output had decreased in 1993 by 12 and 16 per cent, respectively, over 1992. The high inflation rate together with the contraction in output had negatively affected investment and, in particular, had depressed self-investment for restructuring enterprises and other economic entities. This was why the Government had set as a priority for 1994: to combat inflation and to create conditions for stabilization of production, along with acceleration of institutional and structural changes. The objective was to reduce monthly rates of inflation to 7 per cent by the end of 1994.

17. The Government of Russia intended to initiate the implementation of those aspects of structural policies related to reorganization of inefficient enterprises or changes in specialization, liquidation or privatization, taking into account the social, economic and financial implications of such policies. In this context, the mechanism of investment auctions would be widely used. Another aspect of reform

policies was development of free competition and entrepreneurship without State interference in producers price formation (with only a few exceptions). Reforms at this stage were aimed at increasing the efficiency of the system of social security, especially as regards socially vulnerable population groups. The Government also intended to pursue further liberalization of foreign trade mechanisms, consisting of putting in place a market-oriented legal system for external economic activities, while taking into account principles and rules of GATT; the list of dutiable imports would be further curtailed; this would be accompanied by a substantial decrease of export duty rates in 1994 and their eventual total elimination. In addition, there would be: refinement of import tariffs, as the main instrument for regulation of import flows; less governmental participation in export-import operations; further contraction of administrative measures affecting exports; stimulation of foreign direct investment, involving completion of the establishment of a favourable legal environment.

18. The full-fledged membership of Russia in the GATT/WTO was also considered to be an important element in the reform of external economic relations. Non-participation in the multilateral trading system considerably limited Russia's exports of goods and services. Russia's accession to the GATT/WTO would make the multilateral system more universal and balanced, and would expand the possibilities for cooperation, including that the developing countries. In this context, UNCTAD's contribution to Russia's integration into the international trading system by implementing a UNDP/UNCTAD project in support of Russia's accession to the GATT was most welcome. As for the trade problems among the economies in transition, trade relations had departed from past practices of artificially stimulating mutual deliveries of uncompetitive goods. This process was almost completed. Russia's economic relations with countries in Central and Eastern Europe would soon reach a new qualitative level, based on internationally recognized rules and disciplines.

19. On trade with developing countries, in 1993, the share of developing countries had increased in both Russian imports and exports, as compared with 1992. Trade in volume terms was also gradually being restored. Although trade relations with developing countries were conducted on the basis of economic interests and mutual advantage, Russia had granted preferential trade treatment to these countries and exempted goods originating in the least developed countries from customs duties. More effective external support measures would have enhanced Russia's own efforts to restructure its economy. He noted with satisfaction that a number of developed country trade partners had provisionally included Russian in their GSP schemes and were providing technical assistance in order to support economic reforms. It was

not clear, however, why many of the same countries were maintaining trade policy instruments created under political and economic circumstances of a totally different historical period.

20. The representative of **Ethiopia** noted that the report by the UNCTAD secretariat, while reflecting the existing economic challenges to the developing countries and the economies in transition, did not meet the expectations regarding information on the least developed countries. While the analysis of trade within economies in transition had been adequate the trade situation within developing countries, particularly the least developed countries, including African countries, could have been more extensive. The latter countries, for example, were currently engaged in establishing their own economic bloc, the African Economic Community (AEC). The establishment of the AEC as a means to promote the participation of African countries in international trade merited closer attention. Since the collapse of the socialist economic system, not only the countries of Eastern Europe but also African countries had been undertaking economic reform. The Transitional Government of Ethiopia had launched a major economic programme to introduce a market economy. The private sector was being encouraged and access to social services had been improved, aimed at poverty alleviation. Progress had been made in establishing macroeconomic stability. Priority objectives for investment had been set. Accordingly, health care, education, rehabilitation and selective areas of infrastructure of paramount importance for economic recovery had been defined by the Government as priority areas. The Government had taken a number of steps to implement the newly adopted economic policy. Thus, the devaluation of the local currency, removal of constraints on domestic and foreign investors, legislation permitting the establishment of private banks and other financial services, and the shift of government expenditure from defence towards social and economic sectors were some of the measures taken.

21. Now that the developing countries, particularly those in Africa, were undertaking deep economic reform, UNCTAD in its reports could snow how the international community would eventually profit from increasing its financial and technical assistance, as losses in the countries' terms of trade constituted a multiple of the aid increment. As to foreign direct investment in Africa, it remained very low, although peace and stability prevailed, as was clearly the case in Ethiopia. UNCTAD should play a significant role in assisting the launching of multinational projects in such fields as transport, communications and effective promotion of greater foreign direct investment. UNCTAD could also strive to help establish linkages between African countries and countries in other regions. UNCTAD should use its expertise to support the least developed countries in their adjustment

efforts. UNCTAD should safeguard such mechanisms as the generalized system of preferences while resisting any steps which would erode it. It was important that for the international community at large support indigenous institutional formations such as the AEC, as these groupings were important in coping with the challenges of the future.

22. The representative of **Hungary** expressed overall satisfaction with the UNCTAD secretariat's report under this agenda item but noted that differences among individual countries had not been reflected in the conclusions reached and the possible areas for international cooperation proposed. He then outlined the present stage of transformation in his country. The establishment of a legal and institutional framework for a market economy - including a transparent trade regime - had been basically completed. For smooth operation, some further improvements in these market instruments might follow. Hungary had been a contracting party to the GATT since 1973 and its accession had been based on tariff concessions. The Final Act of the Uruguay Round would further enhance market access possibilities for Hungarian exports as well as for imports from its trading partners. Hungary had concluded the so-called Europe Agreement with the European Union and free trade agreements with the EFTA States and a number of countries in the region. Notwithstanding these advances, several external factors, like the loss of some of Hungary's traditional markets, the worldwide economic recession, and the economic consequences of the United Nations embargo measures had exacerbated the difficulties of the transformation process. Market access possibilities of Hungarian exports could be improved. In 1993, Hungary's trade balance had deteriorated. Imports had increased dynamically but export performance was well behind that of previous years. Trade with developing countries and the countries of Eastern and Central Europe in transition had been less affected by these changes. The Hungarian Government continued to apply the Generalized System of Preferences (GSP) for imports from developing countries which covered almost all imports from the beneficiary countries. Imports from the least developed countries entered Hungary duty free. Further export prospects for developing countries existed in Hungary, since these countries had not yet fully utilized all the new possibilities arising from the transformation, such as the liberalization of the foreign trade regime, development of the new financial framework, elimination of formal State monopolies and expansion in the number of enterprises engaged in foreign trade. In order to ease the difficulties arising from problems of trade finance, Hungary had reinforced the operation of the Export Guarantee Institute; an export credit bank was also being established. Foreign direct investment was playing an important role in the transformation process. The value of foreign direct investment in 1993 had reached $US 2.3 billion, surpassing

the 1992 figure of $US 1.5 billion. This flow should by no means be considered as depleting resources available to developing countries. Any attempt to revive old forms and structures of trade among countries in transition would be quite misplaced. Trade policies, priorities, utilization of foreign aid and technical assistance were subject to the autonomous decision of each Government. The best possible way to integrate developing countries and countries in transition irto the world economy and expand trade among them would be to encourage the development of competitive economies, the reduction of trade barriers, and improved market access.

23. The representative of the **Czech Republic** said that the report prepared by the UNCTAD secretariat offered a good basis for discussion. As the general conclusion had stated, the transition process in the various countries of Central and Eastern Europe had begun at different times and from different starting points with regard to production and foreign trade structures. It was likewise proceeding according to different strategies and hence its progress varied among the countries involved. The Czech Republic was quite often referred to as one of the countries which had achieved encouraging results in the transformation process. These results included progress in macroeconomic stability accompanied by the curbing of the inflation rate, a balanced State budget, a surplus in the current account balance and a low rate of unemployment. The decline of gross domestic product had ceased and the revival of economic growth was anticipated. The restructuring process was still strongly supported by the population. Liberalization of foreign trade had been a cornerstone of economic reform in the Czech Republic. The country had adopted the legislation and foreign trade regime of its predecessor and continued the policy of opening up its economy to world trade and creating conditions for deeper integration into the multilateral trading system. As a result of reforms, the foreign trade regime of the Czech Republic had become one of the most predictable in the world. The weighted average of customs duties amounted to only 5.7 per cent. In industrial products, the average tariff incidence was even lower. The application of non-tariff measures was extremely limited. The Czech Republic had also maintained a general system of preferences which provided for preferential treatment to imports originating in developing countries. The opening of the Czech economy and the liberalization of trade would be further consolidated by the results of the Uruguay Round. At the same time, the Czech Republic expected that the multilateral trading system and the developed countries would be more responsive to the country's efforts to implement sound domestic economic and financial policy and to better use comparative advantages.

24. The transformation process of the Czech economy and of other countries of Central and Eastern Europe offered increased market opportunities for trade partners, including developing ones, notwithstanding some short-term problems in trade with the latter. The Czech Republic's access to eastern and developing economies' markets was deemed a comparative advantage. The shift from a limited number of large monopolistic foreign trade organizations to thousands of small and medium-size autonomous enterprises had enlarged the opportunities for foreign trade and economic cooperation. The Czech Republic attached importance to mutually beneficial trade and economic cooperation with a growing number of countries in Asia, Africa, the Middle East, Latin America and the Caribbean. The developing countries should be encouraged to take more initiatives in this regard. New trade agreements had been negotiated and signed with India, the Islamic Republic of Iran, China and Egypt while others were currently under preparation. Attention would be given, inter alia, to the revival of cooperation in the delivery of complete production units.

25. The representative of **Australia** stated that the conclusion of the Uruguay Round would assist all countries to grow and develop. While some developing countries had strengthened their democratic institutions and made economic progress, others had experienced social and economic crises. The difficulties of restructuring economies in transition had led to an increase of their trade with developed countries but not less so with developing countries. Owing to comprehensiveness and balance, the outcome of the Uruguay Round would be positive for all countries. Concerning the existing opportunity for expanded trade between economies in transition and developing countries in the medium term as the secretariat's report had suggested, if these opportunities were to be seized, a framework of national policies and cooperative measures needed to be established. UNCTAD could play an important role in facilitating this process by providing a forum for intergovernmental consultations and by offering timely analysis. She suggested that it be borne in mind when undertaking such analyses that, while some countries might feel that they had benefited less from the Round than others, all countries in the long run would benefit from a more stable and more liberal international trading regime for global economic growth. Australia had demonstrated its continuing commitment to encouraging the process of structural adjustment and economic reform in developing countries and in the economies in transition, as well as in the developed countries. In addition to the multilateral assistance, an Australian programme of training for Eurasia had been launched to deliver technical assistance to the economies in transition in Central and Eastern Europe, the Baltic region, Russia and the other newly independent States. The programme included a training course in Australia for middle-level managers and funds for trainees to conduct courses in recipient countries or

Australia. This included small business training for women, farm management, seminars on the GATT, management of an employment service, mining industry economics and stock market management. Australia was also playing an important role in assisting developing countries to adjust to the new international trading environment as well as through its support for trade liberalization.

26. The representative of **Egypt** voiced appreciation for the UNCTAD secretariat's report but noted that it tended to concentrate on countries in transition, and that most of the recommendations for technical cooperation had been directed towards these countries. The recommendations should not be to the detriment of the interests of developing countries vis-à-vis technical cooperation in UNCTAD and additional financial resources should be found for their implementation. While recognizing the importance of enhancing trade relations between developing countries and countries in transition these recommendations should be further amplified, with the possibility of organizing workshops in the fields of trade, finance, technical cooperation and investment.

27. It was also important to identify areas of comparative advantage for developing countries in terms of exports to developed economies. It would be useful if trade niches between developing countries and countries in transition could likewise be identified. Moreover, the expansion of regional trading arrangements among countries in transition and developed economies should not have a trade diverting effect on the exports of developing economies. Any trade diverting effect should be evaluated, with the findings presented to the next session of the Trade and Development Board. As anti-dumping duties and countervailing duties had increased three-fold in developed economies since 1990 and more than half of the relevant cases had been initiated against developing countries, it would be useful for the UNCTAD secretariat to undertake a thorough analysis of these trends. It would also be useful if sectoral structural adjustments in some sectors in developing economies could be closely examined, especially those subject to non-tariff measures. As a result of tariff reductions in the Uruguay Round, a weakening of GSP schemes of developed economies would follow. Therefore, Egypt supported the idea that the Special Committee on Preferences should take rapid action to improve the GSP schemes in favour of developing countries' exports. It might also prove necessary to alter the schemes applied by countries in transition in light of the results of the Uruguay Round, new accessions to the future World Trade Organization and regional trading arrangements between countries in transition and developed economies. Egypt was looking forward to the success of the transformation process under way in countries in transition and anticipated exploring further avenues of economic cooperation

between developing countries and countries in transition in view of the huge trading potential of countries in transition. The trade of developing countries would be enhanced by a strong linkage between macroeconomic, sectoral and trade policies. Further diversification of exports was crucial to developing countries that relied on a few commodities for their export trade; however, this diversification had to be accompanied by improved access to the markets of developed economies.

28. The representative of **Japan** paid tribute to the many developing countries which had undertaken determined and painstaking efforts towards structural adjustment. Japan recognized such adjustment efforts of developing countries as a global challenge. Accordingly, it was playing a leading role in supporting structural adjustment in developing countries through the International Monetary Fund and the World Bank, which were central to the international support in this respect. In addition, Japan was supporting developing countries' adjustment efforts through several bilateral economic cooperation schemes. The Government of Japan had decided to extend a third round of such assistance (worth some US$ 650 to US$ 700 million) in the fiscal years 1993 to 1995. Expanded markets for exports of developing countries held great importance for trade liberalization and economic reform of such countries. In this context, improved access to the Japanese market of developing countries' products was being encouraged in a series of market-opening initiatives undertaken recently by Japan. As a result, Japanese imports from developing countries had increased steadily from 1986 to 1993, reaching US$ 120 billion. The comprehensive package of economic measures decided in February 1994 was expected to consolidate this trend further. As far as the GSP scheme was concerned, the Government of Japan would welcome initiatives addressing the reduced GSP margin of the post-Uruguay Round and indeed Japan had already taken steps in this direction in announcing reduced or new GSP rates for 12 tropical products. The integration of the economies in transition into the world economy was also a challenge of a global nature. The difficulties which these economies faced were daunting and their efforts to overcome them highly commendable. The situation in the economies in transition was, in a way, a reflection of today's world where economic interdependence had deepened on the one hand while political uncertainty had increased on the other hand. Japan had been making active contributions to international cooperation in support of the economies in transition within both bilateral and multilateral frameworks. He emphasized, however, that support for the economies in transition should not affect the high priority given to development cooperation with developing countries. Fuller integration in the multilateral trading system was the best way to promote the trade of developing countries and economies in transition. Japan would continue to do its utmost to maintain and

strengthen the multilateral trading system. The conclusion of the Uruguay Round was indeed the single most important factor which would contribute to the strengthening of the open multilateral trading system. It was extremely important to make sustained efforts to implement the agreements negotiated within the Round. The implications of regional integration arrangements involving major trading nations to the trade of developing countries and economies in transition could not be neglected. High priority should be given to the issue of regional integration in the overall work programme of UNCTAD after the Mid-term Review.

29. The representative of **Belarus** said that the discussions on agenda item 2 confirmed the importance of a multilateral approach to global trade and economic issues and of the machinery of the United Nations system, including UNCTAD. His delegation agreed with the main conclusions of the secretariat's report; the world economy was increasingly integrated, and countries which did not participate in it sufficiently could lose the advantages inherent in the international division of labour. At the present stage of its reform process, Belarus was seeking to achieve stable economic growth, promote privatization and the private sector, and provide a social safety net for the transition period. The new Constitution, adopted on 15 March 1994, would help accomplish these tasks, and it provided guaranteed equality of treatment for all forms of property. The policy of the Government of Belarus was to accelerate market reforms through macroeconomic stability and structural adjustment. The latter was directed at economic recovery on the basis of more effective use of resources through parallel promotion of competition and private sector development. In 1994, the Government of Belarus would be seeking to: accelerate the privatization of small enterprises, with up to 50 per cent of trade and service enterprises to be privatized and at least 50 large state enterprises to be transformed into joint-stock companies; pursue an active anti-monopoly policy; and provide state support for entrepreneurship, the intention being that the private sector would develop rapidly enough to compensate for the inevitable contraction of the state sector; increase economic efficiency; and ensure maximum employment. The Government of Belarus was convinced that the process of creating and strengthening market mechanisms and political democratization should be carried out in close cooperation with the international community and its multilateral institutions such as UNCTAD, IMF, the World Bank and GATT. Belarus attached great importance to the strengthening of cooperation with such institutions. Finally, he stressed that his Government welcomed the results of the Uruguay Round. Belarus had activated its collaboration with GATT and aimed at acceding to it as a full member.

30. The representative of **Slovakia** stated that economic developments in his country had been affected by the separation of Czechoslovakia, the change in the domestic currency, a vast tax reform and the strong world recession. The creation of an independent monetary system had necessitated a new monetary policy. Foreign exchange reserves had been unstable; the currency devaluation carried out had not as yet sufficiently improved the balance of payments nor supported more dynamic expansion of exports. In 1993, exports had fallen more significantly than imports. The Government of Slovakia had introduced the "Concept of Foreign Trade of the Slovak Republic" of which the export promotion programme was one of the major components. Greater attention would be paid to strategies to overcome both internal and external barriers to international trade. The following internal trade barriers were cited: (a) insufficient existing infrastructure for export promotion; (b) need to improve export financing facilities within the banking system; (c) need for more efficient links with foreign capital and financial markets; (d) lack of credit on competitive terms; (e) need to improve and extend export credit insurance facilities; (f) insufficient foreign direct investment; and (g) need to improve advisory services in support of the export sector. Furthermore, an export promotion centre would be established by the Government. Greater attention would also be paid to a better use of foreign aid for training foreign trade experts. Moreover, foreign trade transactions would be made more efficient in the context of the EDIFACT project. Customs procedures would be simplified. Finally, a network of foreign trade representatives would be established abroad. Being a small country, Slovakia had a great need for an open national economy, and considered international trade to be one of the best ways to accomplish the process of transformation to a market economy.

31. The representative of **Poland** emphasized that the information provided in the secretariat document had accurately confirmed the signs of Poland's recovery since early 1992. According to a recent IMF assessment, Poland's growth in 1993 was the second fastest in Europe, with a repeat performance expected in 1994. GDP had increased by 1.5 per cent in 1992 and 4.6 per cent in 1993; industrial output, at constant prices, went up by 3.9 per cent in 1992 and 6.2 per cent in 1993. In the first quarter of 1994, industrial output grew at a rate of 10 per cent. This positive performance had stimulated foreign partners to invest in Poland, including participation in privatization. This simply confirmed that good economic prospects were decisive for attracting foreign capital. Poland's recent economic performance confirmed the successful strategy based on a radical liberalization of trade conditions which the country had embarked upon in 1990.

32. Polish authorities were fully determined to integrate the country further into the world economy. Poland had committed itself to important tariff reductions under

the Uruguay Round negotiations. The average tariff cut would be 37 per cent for food and agricultural products. The trade-weighted reduction on industrial tariffs was estimated at 38 per cent, with the average level of tariff protection decreasing from the present 16 per cent to less than 10 per cent after the implementation of the Uruguay Round commitments. Poland was convinced that developing countries would also benefit from these tariff reductions. Poland was a participant in regional European integration efforts. In February 1994, the Association Agreement between Poland and the European Communities officially entered into force after the ratification process had been completed by all signatories. In November 1993, the Free Trade Agreement between the European Free Trade Association (EFTA) States and Poland became effective. In December 1992, Poland, along with the Czech Republic, Hungary and Slovakia signed the Central European Free Trade Agreement (CEFTA), in effect since March 1993. These agreements were all aimed at deeper integration of the Polish economy into international trade. Regional integration could stimulate a harmonious global liberalization from which all countries would benefit. There had been also some negative aspects of Polish economic development. One was the growing trade deficit. At the end of the third quarter of 1993, the trade deficit had reached $US 3.5 billion. A deficit was recorded in trade with all groupings of partners. With developing countries, the deficit was above $US 0.5 billion. This proved that Poland's trade partners gained more from trade liberalization than did Poland. Hence, Poland was appealing to the developed countries for better market access conditions. Technical and financial assistance alone was not enough. UNCTAD could and should play an important role in enhancing better trade and investment collaboration between developing countries and countries in transition. A good example of such collaboration would be the Workshop-Business Week on trade and economic cooperation between the countries of Eastern and Central Europe and Egypt, scheduled to take place in Egypt in October/November 1994. Such undertakings, with the participation of UNCTAD experts, could promote more successful collaboration between developing countries and countries in transition.

33. The representative of **Austria** expressed his conviction that countries in transition and least developed countries not only needed financial support but even more so needed technical assistance and, above all, substantial aid for structural adjustment. He welcomed the introduction of market elements into the economies of a number of countries in Eastern and Central Europe which, inter alia, had resulted in an impressive growth of Austrian imports from the region. The newly independent States of Central and Eastern Europe, Bosnia-Herzegovina and the Former Yugoslav Republic of Macedonia had been included into the Austrian GSP scheme. However, UNCTAD had originally been created to serve the needs of developing countries and

so he supported the statement of the representative of Ethiopia who had criticized the balance reflected in the report of the secretariat regarding least developed countries and economies in transition. Austria was open-minded with respect to the requirements of developing countries and thus had neither quotas, ceilings nor other quantitative import restrictions in its GSP scheme. Neither did it exclude textile or clothing products from GSP tariff treatment. In consideration of the specific problems of the least developed countries, Austria took a second step in 1982, by granting duty-free treatment for industrial items and a 50 per cent tariff cut for textiles and clothing to Group II countries. The total value of actual preferential imports in Austria in 1992 had reached almost six and a half billion dollars, of which Asia took a share of 46.49 per cent. Unfortunately, the least developed countries were generally not utilizing the possibilities offered. Of 47 least developed countries, in 1992 only 19 had seized the opportunity to export to Austria under the GSP scheme. In this connection, the situation of the Asian and the African least developed countries showed that the Generalized System of Preferences could not stimulate their exports unless accompanied by internal measures and a stable political system. In recognition of this situation, Austria had begun to offer some additional programmes for least developed countries. It was of course up to each country itself to benefit from these programmes and, above all, to create the necessary preconditions for steady, sustained economic development.

34. The representative of **China** noted that since the 1980s many developing countries had carried out structural adjustments and economic reforms at tremendous cost. However, with the exception of certain countries in East and South-East Asia, the economic growth in most other developing countries had remained disappointing. Many continued to experience various impediments to their integration into the international trading system. Given the economic strength of developed countries, their high domestic consumption and huge market capacity, the opening up of their domestic markets to developing countries held particular significance for the enhanced participation of developing countries in international trade. However, many developed countries still pursued discriminatory trade policies against developing countries. He called upon the developed countries, in particular the major trading nations, to rescind unilateral and discriminatory trade policies against developing countries, and not to set up new obstacles to their exports.

35. *Although the Uruguay Round* of trade negotiations had come to an end, the interests of the developing countries had not been fully taken into account or reflected in the agreements of the Final Act. This situation could perhaps be corrected in the implementation of the agreements. Some products where the

developing countries enjoyed a comparative advantage - such as textiles, clothing and farm produce - were still subject to quantity restrictions and restrained by high tariffs. Under these circumstances, the Generalized System of Preferences (GSP) was of great significance to the exports of the developing countries. Hence the need for the developed countries to continue the provision of GSP to the developing countries, and to simplify procedures, increase the number of countries providing preferences, expand product coverage and optimize preference-giving schemes. The new World Trade Organization would hopefully attract the participation of more countries for greater universality and representativity. As a full participant in the Uruguay Round, China had been a major contributor and made substantial concessions in order to become a member of the World Trade Organization. As the biggest developing country in the world, China continued to adhere to the policy of economic reform and opening to the outside world, and had made great progress. In an effort to maintain stable, healthy development, the Chinese Government in 1994 had promulgated major reform measures in areas of foreign exchange, finance and banking. These measures would provide an even better environment for countries to expand their trade with China and invest therein.

36. The representative of **Viet Nam** stated that countries engaged in the process of profound economic reforms sought economic development that combined growth and social gains. Although the trend towards a market economy was widely accepted, it could not be considered a panacea. Moreover, the establishment of a fair international trading system, though universally desired, could not by itself induce the leading economic actors to renounce recourse to unilateral measures which preserve their dominant position to the detriment of developing countries. Hence, increased participation of developing countries in international trade implied strengthened international cooperation which would keep countries from imposing their own views and solutions on others. Trade involved competitiveness, comparative advantages and preferential treatment of developing countries. These were assets which must be preserved for the benefit of world trade. The initial results of the economic reform in which his country was engaged were particularly important with regard to growth rate, inflation, trade balance and food supply. Many lessons could be drawn from that initial success. Political and economic stability were intrinsically linked and indeed were indispensable for carrying out long-term economic activities. These were also sine qua non conditions for attracting foreign investment. With regard to some specific difficulties since the adoption of economic reforms, the major problem was to set the foundations, build and improve the physical, institutional and legal infrastructure and hence have the capabilities of managing the economy with the country's own human resources trained

to this effect. Another matter of concern was management of the financial resources which his country was attracting. UNCTAD's technical assistance during the coming months and years could make a vital difference. Trade policy, structural adjustment and economic reform were components of a process that was closely linked to international cooperation, particularly regional, and to the revitalization of trade and economic links with traditional partners in Eastern Europe.

37. The representative of **Romania** stated that while the participation of developing countries and countries in transition in international trade depended mainly on their own efforts, the external environment and the international community's assistance also played a critical role for the success of this endeavour. Romania's decreased share in world trade in recent years was attributable to a number of factors, including objective difficulties generated by the overall process of transition to a market economy. At the same time, international trade flows had also been to a considerable extent influenced by changes in the international political and economic climate. Romania was making great efforts to increase its participation in international trade and to ensure its enhanced participation in the world economy and the multilateral trading system. The measures undertaken to this end had already resulted in encouraging signs of economic progress. However, in order to ensure increased participation in world trade, Romania was seeking cooperation with its trading partners, initially through enhanced access of Romanian products to foreign markets. The increase of financial and technical assistance, as well as the facilitation of foreign investment in Romania were also important means of attaining that objective. There was a need for intensifying UNCTAD activities aimed at increasing the participation of developing countries and countries in transition in the international trade of goods and services, taking into account the work in this area of other international organizations, including the future World Trade Organization.

38. The representative of **Mexico** observed that world economic activity had moved into a recovery phase but that economic prospects, although encouraging for some countries, were still far from promising for all. The problems of the world economy in recent years had had adverse effects for developing countries where demand for exports was restrained. The deficient economic growth of most developed countries had provoked an increase of unemployment; this had given rise, in turn, to pressures for the erection of trade barriers to defend employment levels. A number of developing countries had become strong proponents of trade liberalization

and had contributed to the world economic growth through the application of structural adjustment programmes. It was, nevertheless, necessary to point out that the economic situation of low income countries remained difficult. To overcome these problems, the countries concerned needed, in addition to their own efforts to deepen their structural adjustment policies, the committed support of the international community as shown through a profound liberalization of world trade and better access to the developed country markets. In carrying out the measures recommended in the UNCTAD secretariat's report, the specific requirements and needs of each country should be taken into consideration. Special emphasis should be placed on measures favouring reso rce and technology transfers and the improvement of the generalized system of preferences. Economic growth of developing countries and of countries in transition along with an improvement of living standards of their peoples was indispensable, as it would help propel the incipient world economic recovery.

39. The representative of the **United States of America** stated that the initiatives of developing countries and economies in transition to implement GATT-consistent economic reforms should be encouraged in order to facilitate their early, closer integration into the multilateral trading system. This included full adoption of the fundamental GATT principles of national treatment, unconditional MFN and transparency. As a result of the improvements brought about by the successful conclusion of the Uruguay Round, developing countries would enjoy increased trade. This in turn would increase real income and fuel economic development. The United States did not share the view that developing countries would gain less than developed ones: increased global trade would stimulate foreign direct investment and provide opportunities for developing countries to expand their markets in agricultural and industrial goods and services. The Uruguay Round results promised opportunities for all in a global market with a great potential for growth. Staunch support for the multilateral trading system, and all that could be accomplished multilaterally, did not detract from regional agreements which could in fact form building blocks for increased world trade. Regional arrangements could help smaller economies establish regional markets which could eventually expand into global markets, thus providing unique and additional development opportunities for developing countries. Trade policy reforms in the countries of Central and Eastern Europe and the newly independent States required international support, including liberalized market access. There was no justification for the UNCTAD secretariat's conclusion that the United States market was closed to goods from these countries, since barriers to almost all exports from most of these countries had been removed and MFN treatment granted in the same

manner. Moreover, the United States had extended GSP to most of these countries, and it had already concluded, or was in the process of concluding, investment treaties with many of them. They would also benefit from the overall trade liberalization resulting from the implementation of the Uruguay Round agreements. Inclusion of the economies in transition in the world trading system was very important and the United States was working both bilaterally and multilaterally to assist these countries in their endeavours to reach this goal.

40. The representative of the secretariat of the **Commonwealth of Independent States** (CIS) said that he was pleased to have been granted observer status. He then provided information about the structure of the CIS and its executive bodies and described the economic situation in the member States. At the highest level were the Council of Heads of States, which holds two sessions annually, and the Council of Prime Ministers, which meets four times a year. The secretariat of the CIS was one of the major executive bodies and was responsible for both the support work and the execution of the decisions taken by the policy organs. On 24 September 1993, the Heads of States signed a treaty creating an economic union based on equality of rights and mutual respect of the sovereignty and territorial integrity of the member States. As a permanent organization of the common economic space, the Economic Union would pursue free movement of goods, services, capital and labour, as well as coordinated monetary, credit, price, customs and exchange policy. The member States guaranteed the free movement of their citizens within the territory of the Economic Union. The Treaty was subject to ratification and was open for adherence. The permanent representative of Armenia to the CIS then took the floor to describe the economic integration of the member States. Some 40 institutions of the CIS had been created with the aim, inter alia, of integration. These comprised, among others, the Inter-States European Association for coal and steel, the Intergovernmental Council on anti-dumping policies, the Economic Court, et al. Economic integration within the CIS was regarded as a vehicle serving not only the interests of member States but also the whole international community.

41. Exercising his right of reply, the representative of **Greece** recalled that the Former Yugoslav Republic of Macedonia had been admitted to the United Nations precisely under this name, after negotiations at the highest level which had resulted in Security Council Resolution 817/93. Thus it should use this name and not another. He then referred to the passage in the statement of the Former Yugoslav Republic of Macedonia that mentions Greece and said that the well-known differences between Greece and the Former Yugoslav Republic of Macedonia were not of an economic or commercial nature but purely political. Hence, the measures that

Greece had been forced to take as of 16 February 1994 had a predominantly political character. For this reason, the present forum was not the right place to raise such issues. There were other United Nations forums better apt to deal with political questions. Efforts were currently being undertaken at the highest political level to find a negotiated solution to this problem. In closing, he reserved the right to return to this issue at a later stage during the session of the Trade and Development Board, if a more detailed reply were deemed necessary.

42. Exercising his right to reply, the representative of **the Former Yugoslav Republic of Macedonia** stressed that recently, in another forum, the representative of Greece had made a similar statement, incorrectly interpreting the United Nations Security Council resolution and justifying the embargo against his country. On that occasion, his delegation had explained that the language inscribed on the name plate in front of the delegation was not the name of the country, but rather a reference to it. The name of the country was the Republic of Macedonia. In accordance with the Security Council resolution mentioned, the country was fully enabled to use the constitutional name: the Republic of Macedonia. This was the nomenclature which the Government intended to use at all times. While no one could be obliged to use the reference, it was well known that the country had established diplomatic relations with a large number of countries represented in the present forum using its constitutional name. However, the main problem at present was the denial by Greece of the country's right, as a land-locked country, of access to the sea. This right of access to the sea was not only a principle but had a concrete nature with broad implications and could set a very negative precedent in the search for international solutions.

43. The representative of **Greece**, exercising for the second time his right of reply stated that Security Council resolution 817/93 was easily obtainable by delegations and so there was consequently no reason to repeat its contents. As far as the question of access to the sea by land-locked countries was concerned or the measures that Greece had taken since February 1994, these were of a political nature, as already stated previously, and should not be discussed in the present forum.

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Agenda item 2

Sessional Committee I

TRADE POLICIES, STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM: INCREASED PARTICIPATION IN INTERNATIONAL TRADE IN GOODS AND SERVICES BY DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION: SOME PROBLEMS AND OPPORTUNITIES

Draft agreed conclusions submitted by the Chairman

In accordance with the provisions of paragraphs 63 (1) and 129 of the Cartagena Commitment, the Trade and Development Board, in its Sessional Committee I, discussed the issues and problems involved in increased participation of developing countries and of economies in transition in international trade in goods and services.

After discussion, the Committee agreed on the following elements:

1. Increased participation in the world economy by developing countries and economies in transition was of great importance. It involved both challenges and opportunities. Such participation would advance in parallel with growing globalization of activities of economic operators. It would be supported by liberalization of international trade on a broad basis as well as by a wider geographical distribution and intensification of foreign direct investment.

2. Integration into the world economy and the international trading system of developing countries and economies in transition will benefit all countries. Such integration will also enhance trade and investment activities between developing countries and economies in transition.

3. The important structural adjustment measures and economic reforms that had been undertaken by developing countries and economies in transition were welcomed. For national policies, the importance of various factors was underlined such as: efficient macroeconomic management, liberalization of the foreign trade sector consistent with national trade, financial and development needs; the promotion of domestic and foreign direct investment involving technology transfer and export market development; and an efficient financial sector. The significant differences between individual countries in undertaking economic reforms as well as integrating into the international trading system were recognized.

4. In order to improve market access and promote investment and technology flows, including non-debt creating investment, to developing countries and economies in transition national economic reforms need to be complemented by international measures, such as:

(i) full implementation of the Uruguay Round agreements and commitments;

(ii) making international institutions, such as the World Trade Organization (WTO), more globally representative in membership;

(iii) improvement of the schemes of the Generalized System of Preferences (GSP) to progress effectively with the implementation of the Cartagena Commitment and, in particular, its paragraphs 134 to 140;

(iv) enhancement of outward-oriented policies by integration groupings and their member States, supportive of the multilateral trading system and taking into account their effects on third countries, especially for weaker trading partners, in particular developing countries;

(v) international cooperation for trade facilitation and enhanced trade efficiency, including the dissemination of information and strengthened business to business links.

5. The international community should continue to support economic reforms through financial and technical assistance to overcome supply-side constraints and social implications of structural reforms as well as to strengthen the capacity for policy formulation, institution-building and human-resource development. Furthermore, General Assembly resolutions 46/202 and 47/187 were recalled with regard to the assurances given by the developed countries and multilateral financial institutions that the resources allocated to the economies in transition would not reduce or divert official development assistance from developing countries. Least developed countries required special consideration and support by the international community.

6. The value of UNCTAD's on-going activities was recognized and it was considered that UNCTAD should continue to play an important role in facilitating the processes of countries' integration into the world economy by providing a forum for intergovernmental consultations, preparing timely analyses and identifying new opportunities for trade, investment and technological cooperation, inter alia, between developing countries and economies in transition. Technical assistance activities in such areas as international negotiations, implementation of the Uruguay Round agreements, regional integration, and specific projects of cooperation between developing countries and economies in transition should be continued and intensified, upon request. Such activities should take account of UNCTAD's resource availability, in particular of extra-budgetary resources, and priorities as outlined in the Cartagena Commitment. The United Nations Development Programme, other international financial institutions and developed countries should consider their possibilities to provide support to such projects.

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Agenda item 4

Sessional Committee I

SUSTAINABLE DEVELOPMENT: THE EFFECT OF INTERNALIZATION OF EXTERNAL COSTS ON SUSTAINABLE DEVELOPMENT

Draft agreed conclusions submitted by the Chairman

In accordance with Conclusion 407 (XL) of the first part of the fortieth session of the Trade and Development Board, Sessional Committee I held an exchange of views on the effect of the internalisation of external costs on sustainable development. Its discussion was aided and enriched by the excellent documentation prepared by the UNCTAD secretariat and the contributions of a panel of experts drawn from several regions.

The Committee agreed that:

1. The internalisation of external environmental costs is of general importance in the follow-up to UNCED, particularly in the light of the Rio Principles, especially Principle 16. Internalisation will be an important instrument for achieving sustainable development. Internalisation will also relate to the further evolution of multilateral discussions on trade and environment, in UNCTAD, WTO and elsewhere.

2. Internalisation requires a careful balancing of equity and efficiency and, within the former, of intra- and inter-generational considerations of domestic and international nature. It is a means towards the ultimate goal of the efficient avoidance of environmental costs, not a goal in itself.

3. Internalisation may be accomplished in three basic ways, all of which may be used in combination. The regulatory approach has the advantage of ensuring compliance to strict quantity-related standards, but only if there is adequate enforcement. Market-based economic instruments are often the most cost-efficient and create a continuing incentive to reduce external environmental costs. Such instruments, however, make the true costs of environmental protection highly visible and require the existence of markets and administrative structures which may not be adequately developed in some countries. A third approach consists in undertaking public education and information programmes to alter the public's perception of environmental costs.

4. Success in achieving internalisation within a given country is likely to be improved if attention is paid to the following elements, inter alia, of a potential policy mix:

(a) Attenuation or elimination of policies that distort resource allocation, in particular, environmentally-unsound subsidies. Agricultural subsidies are of importance in this context, particularly those which have a trade effect;

(b) Correction of fundamental incentive failures, such as insecure or absent property rights, or unpriced resources;

(c) Gradual introduction of other internalisation policies of a regulatory or economic nature. These could include product or emission charges, other economic instruments for internalisation and the reinforcement of institutional capacity in the environmental area;

(d) Environmental impact assessment in public decision making, in particular concerning public projects.

5. Sound macroeconomic policies, a strong fiscal system, the development of human resources in environmental management and administrative efficiency are essential for successful internalisation.

6. In addition to measures at the national level, an efficient system of positive incentives at the international level would help to induce cooperative environmental protection with special attention directed towards developing countries, in line with Principle 7 of the Rio Declaration.

7. Trade has an essential role to play as a vehicle for internalisation. The successful implementation of the results of the Uruguay Round, particularly in the areas of market access and subsidies, could contribute towards making internalisation easier to accomplish. However, the contribution of trade liberalisation to sustainable development will be achieved only when the liberalization is accompanied by government policies to ensure the adjustment of economic incentives to environmental objectives. The introduction of certain market-based instruments may also help to spur internalisation, but care needs to be taken in designing and implementing them to avoid undue adverse effects on the exports of developing countries. Moreover, policies to internalise external environmental costs may affect competitiveness.

8. Commodity pricing issues and the coordination of internalisation in commodity-based industries are central to making trade better serve the objectives of sustainable development. Commodity production and processing impose costs on the environment, and ultimately on those living in areas where these activities take place, which are rarely included in the market price. Mechanisms may be needed to deal with such market failures, without thereby diminishing the resources derived, particularly by the developing countries, from commodity exports.

9. External environmental costs frequently arise from the techniques of production rather than from the product. Technologies already available can provide solutions and potential future technologies hold out the prospect of substantial improvements in production techniques. The heavy financial costs associated with the transfer of "clean" technologies will, however, make necessary the adoption of cooperative approaches which include, in particular, the private sector, to provide incentives for switching to more environmentally sound technologies.

10. Work in UNCTAD on the issue of internalisation should now assume more specific directions. It is an important element within the programme on trade and environment outlined in Conclusion 407 (XL). The issue of competitiveness will be considered at the first part of the Board's forty-first session. It would be useful to establish a special institutional mechanism for dealing with the inter-related areas of trade, environment and development. There is general agreement to undertake work in the Standing Committee on Commodities to examine the issue of the principle of full cost resource pricing and its implementation in support of sustainable development. There is also agreement that issues relating to financial aspects of sustainable development as well as to cooperative solutions to the problems associated with the transfer of environmentally sound technologies to developing countries, deserve further consideration in UNCTAD.

The Committee recommended that:

11. The Trade and Development Board request the Standing Committee on Commodities to begin examination at its next session of "global cooperation on the principle of full cost resource pricing and its implementation, in support of sustainable development".